

# Utah Retirement Systems Overview

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**JUNE 1, 2017**

THE OFFICE OF LEGISLATIVE RESEARCH AND GENERAL  
COUNSEL

# Five Key Retirement System Indicators

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**Funded Ratio = 87.1% (2016) (Recent high 100.8% in 2007) (Recent low 76.5% in 2012)**

- Unfunded Liability = \$4.28 Billion (2016)

**Contribution Rate Levels = 22.19% of Salary (FY 2018 Public Employees Noncontributory)**

## **Revenue**

- Investment Rate of Return = 8.79% (2016)
- Assumed Rate of Return = 7.2% (2016)

## **Fiscal Discipline -- Elements**

- Fully Fund Recommended Contributions – no contribution holidays
- Avoid Benefit Enhancements – no benefit increases
- Well Managed System – (URS Board, URS Office, Actuary, Legislature)
- Reasonable Administrative Costs

## **Clear Reporting/Accountability**

# Key Questions

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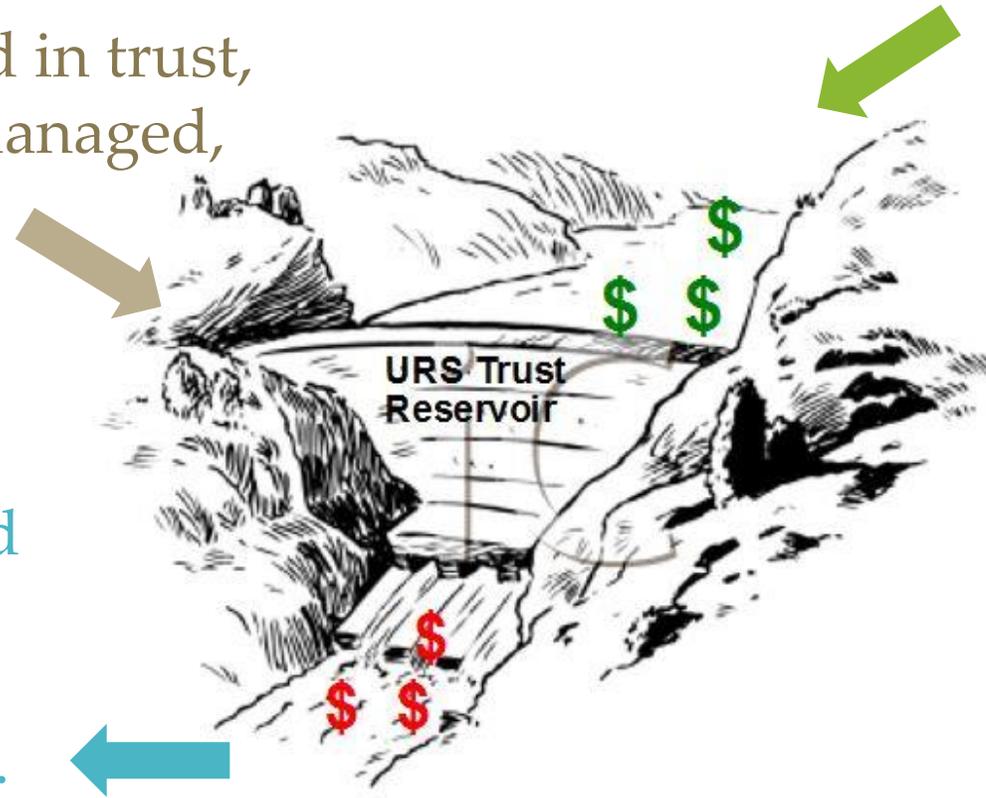
- What is Utah Retirement Systems (URS)?
- What were the 2010 Utah retirement reforms?
- What are the benefits? (*Formulas*)
- When can benefits be taken? (*Eligibility*)
- How is URS funded? (*Revenues*)
- What is the funding status of the retirement systems? (*Funded Ratio*)
- What contributions are needed? (*Contribution Rates*)

# Utah Retirement Systems

*Like a Reservoir of Shared Funds for Members...*

1. Funds are held in trust, professionally managed, and invested.

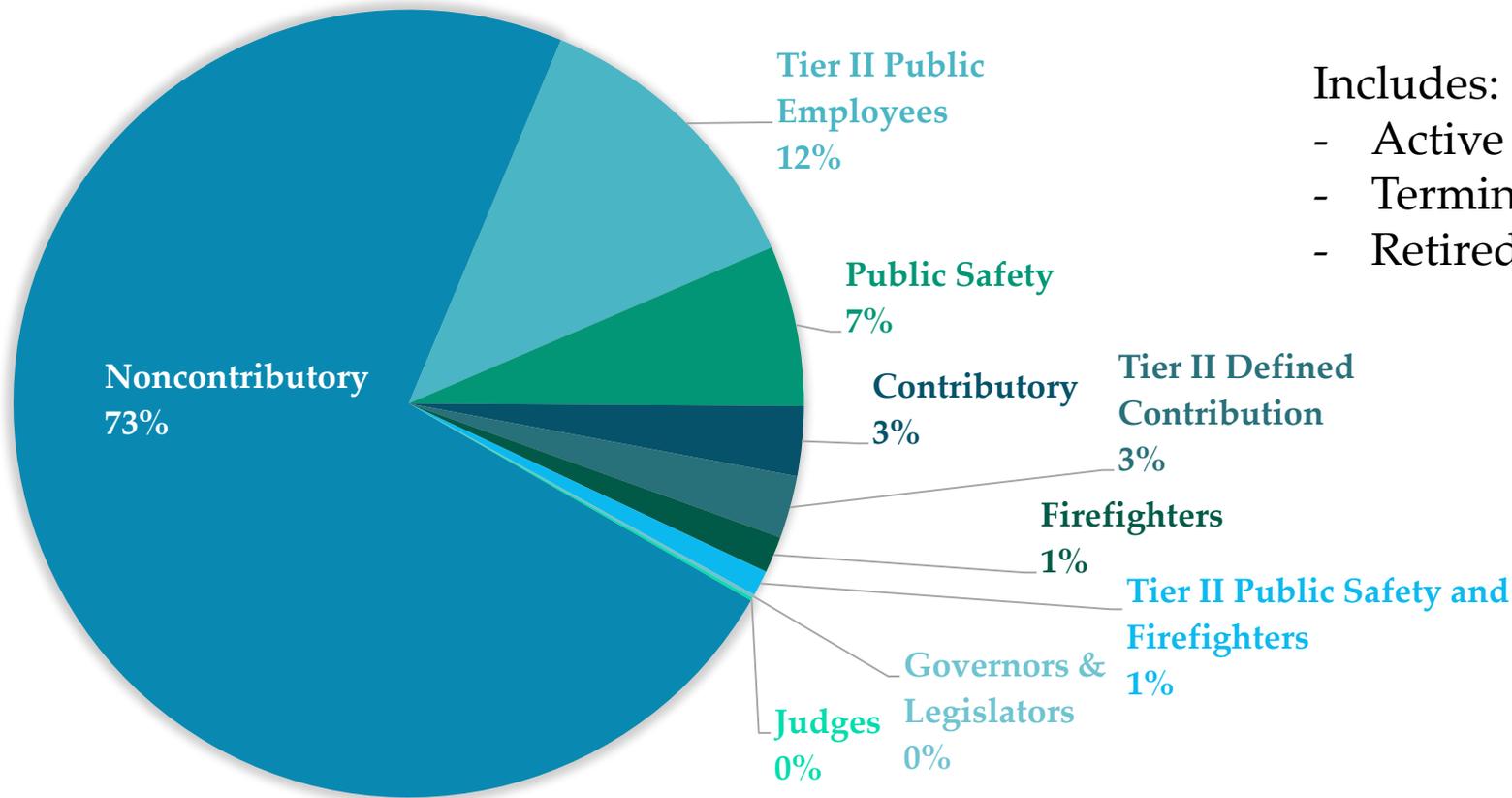
3. Funds are paid out monthly by formula, during retirement years.



2. Employer and employee contributions are deposited each pay period during working years; fund investment returns are also added.

# URS – Membership in Systems

**Total System Membership: 221,405**  
(12/31/2016)

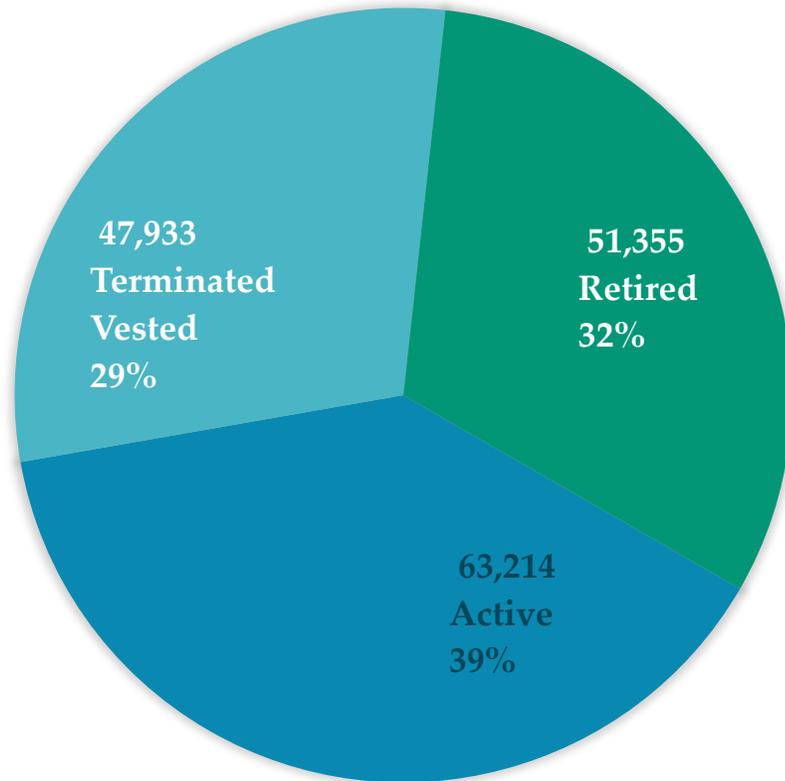


Includes:

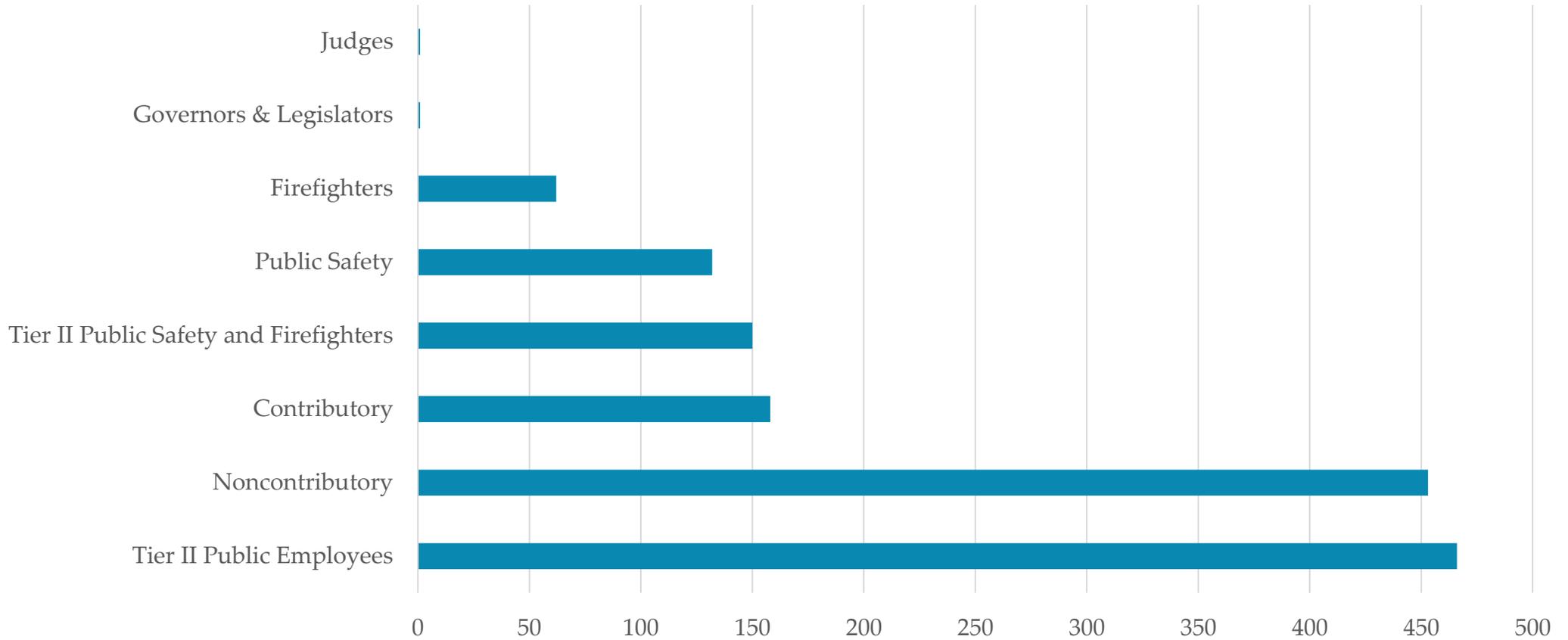
- Active (currently employed);
- Terminated vested; and
- Retired

# URS – Membership in Systems

Big System Membership: 161,542  
(12/31/2016)

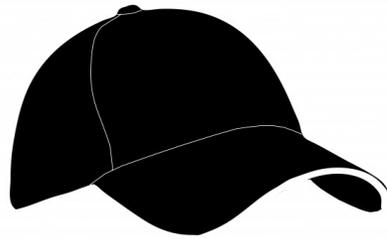


# URS – Participating Employers

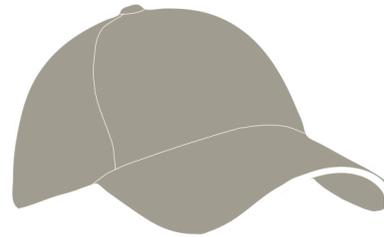


# The Utah State Legislature's Role With Retirement Systems

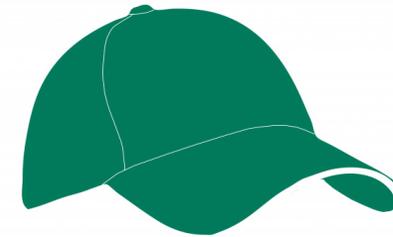
Three Hats



Policymaker for all Retirement Systems



Employer of state and school employees



Member of the Governor and Legislator System or Tier II Public Employee Defined Contribution System

# Retirement Definitions

Utah Code Section 49-11-102

- **"Actuarial interest rate"** means the interest rate as recommended by the actuary and adopted by the board upon which the funding of system costs and benefits are computed (*assumed rate of return*)(7.2% for FY 2018).
- **"Amortization rate"** means the board-certified percentage of salary required to amortize the unfunded actuarial accrued liability in accordance with policies established by the board upon the advice of the actuary (e.g., 9.94% for FY 2018 for public employees noncontributory state and school).
- **"Certified contribution rate"** means the board-certified percentage of salary paid to URS (on behalf of an active member) to maintain the system on a financially and actuarially sound basis (e.g. 22.19% for FY 2018 for public employees noncontributory state and school).
- **"Normal cost rate"**:
  - (a) means the percentage of salary that is necessary for a retirement system that is fully funded to maintain its fully funded status; and
  - (b) is determined by the actuary based on the assumed rate of return established by the board.
- **"Unfunded actuarial accrued liability" or "UAAL"**:
  - is determined by the systems' actuary; and
  - means the excess, if any, of the accrued liability of a retirement system over the actuarial value of its assets (*liability minus assets*)(*\$4.28 billion for all systems as of December 31, 2016*).

# 2010 Utah Retirement Reforms – Key Provisions\*

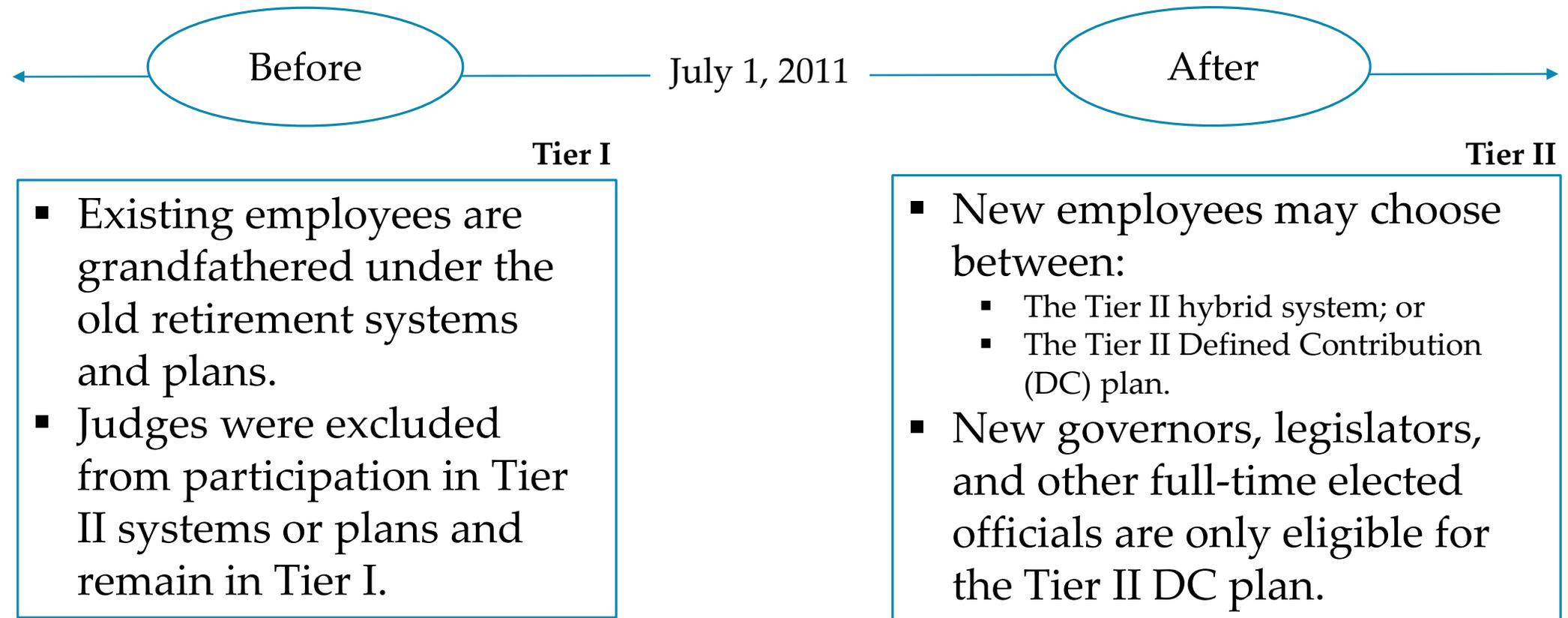
Beginning July 1, 2010, for postemployment restrictions and July 1, 2011, for new-employee retirement systems

- **Provide stricter postretirement reemployment restrictions**
  - Prohibit collecting a retirement allowance while receiving any employer retirement contribution or earning additional service credit and
  - One-year employment separation requirement after retirement (certain exceptions may apply).
  
- **No retirement benefit change for existing public employees (Prospective Only)**
  
- **For new public employees:**
  - Reduced retirement benefits and
  - Provide set employer contribution amounts (10% of salary for public employees and 12% of salary for public safety and firefighter employees) (a death benefit amount and a Tier I amortization is also added).
  
- **Use part of the savings to pay unfunded liability for the old retirement systems (Tier I amortization)**

# 2010 Utah Retirement Reforms – Key Provisions

Tier I or Tier II – based on date of employment

Employees who initially enter regular full-time employment



# 2010 Utah Retirement Reforms – Key Provisions

Beginning July 1, 2011

Four new Tier II systems were created with set employer contributions\*

	Hybrid	Defined Contribution
Public Employees	10%	10%
Public Safety and Firefighters	12%	12%

\*Contribution rates do not include the death benefit contribution or the Tier I amortization rate.

**Sample FY 2018 Employer Contribution Rates:**

20.02% for Tier II public employees’ hybrid (state and school)  
(20.02% = 10% + 0.08% death benefit + 9.94% Tier I amortization)  
22.19% for Tier I public employees’ noncontributory (state and school)

30.54% for Tier II public safety (state)  
(30.54% = 12% + 0.08% death benefit + 18.46% Tier I amortization)  
41.35% for Tier I public safety noncontributory (state)

# URS – Systems

## Participant Systems

### **Tier I Systems** (Six Participant Systems)

- Public Employees Noncontributory
- Public Employees Contributory
- Public Safety
- Firefighters
- Judges
- Governors and Legislators

### **Tier II Systems** (Two Participant Systems)

- New Public Employees Tier II Contributory
  - Hybrid
  - Defined Contribution (includes Governors and Legislators)
- New Public Safety and Firefighters Tier II Contributory
  - Hybrid
  - Defined Contribution

(Judges are not included in Tier II)

# URS – Tier I Systems

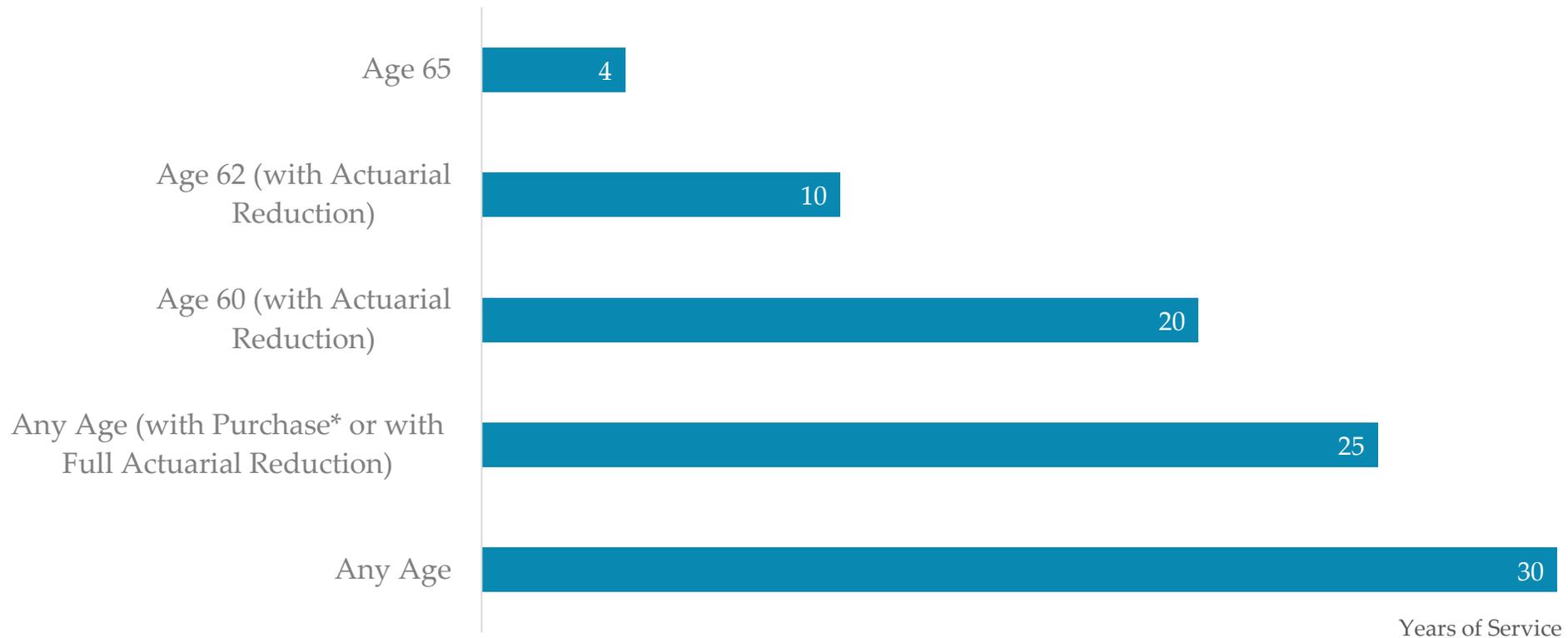
Six Systems With Divisions

- Public Employees Noncontributory
- Public Employees Contributory
- Public Safety (divisions also include a 2.5% or a 4% COLA)
  - Noncontributory – Division A (with Social Security)
  - Noncontributory – Division B (without Social Security)
  - Contributory – Division A (with Social Security)
  - Contributory – Division B (without Social Security)
- Firefighters Contributory
  - Division A (with Social Security)
  - Division B (without Social Security)
- Judges
  - Noncontributory
  - Contributory
- Governors and Legislators

Similar divisions exist for Tier II systems, but only for purposes of calculating the Tier I amortization rate for each existing risk pool

# URS – Tier I Eligibility

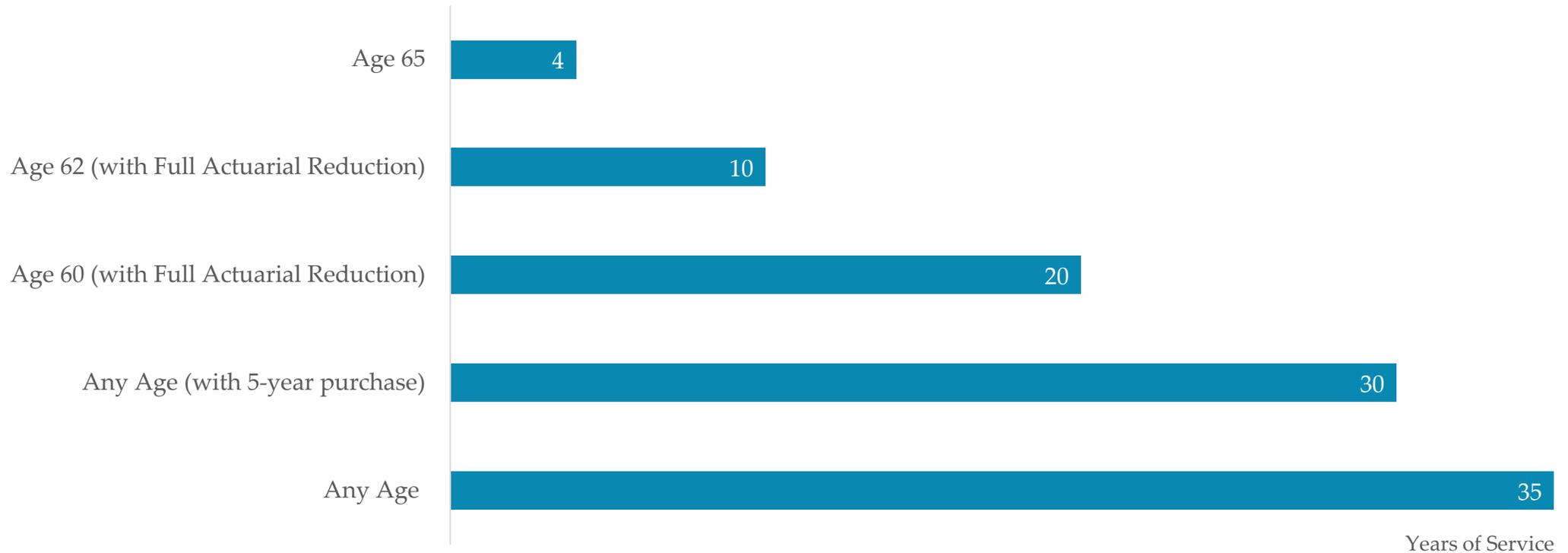
Tier I Public Employees' Noncontributory



\*Not available in the Contributory System

# URS – Tier II Eligibility

Tier II New Public Employees' Contributory Hybrid



# URS – Tier I Benefit Formulas

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## Defined Benefit – Public Employees Noncontributory Retirement Three Allowance Components

- Years of Service (years of service credit)
- Multiplier (e.g. 2%\* per year of service)
- Final Average Salary (average of highest three\*\* years)

\*1.5% for Tier II Hybrid

\*\*Five years for Tier II Hybrid

# Employees' Tier I Noncontributory Formula

**Years of Service × 2% × Final Average Salary (FAS)**  
FAS = Average of highest 3 years

## Example

Years of Service × 2% × Final Average Salary

$$\begin{array}{r} \boxed{30} \times \boxed{2\%} \times \begin{array}{r} \text{Year 1 } \$45,779 \\ \text{Year 2 } \$47,684 \\ + \text{ Year 3 } \$49,590 \\ \hline = \quad \quad \$143,053 \\ \$143,053 \div 3 = \mathbf{\$47,684} \\ \\ 30 \times 2\% \times \$47,684 \\ = \mathbf{\$28,611} \end{array} \end{array}$$

# URS – Tier II Allowance Formula

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Tier II Public Employees' Contributory Hybrid include:

1. A defined benefit as shown in the formula below; and
2. A defined contribution from the employer into a 401(k), if less than 10% of salary is needed to fund the defined benefit (for FY '18 the 401(k) DC is 1.58%)

Defined Benefit Formula:

**Years of Service × 1.5% × Final Average Salary (FAS)**

FAS = Average of highest 5 years

# Years of Service × 1.5% × Final Average Salary (FAS)

FAS = Average of highest 5 years

## Example

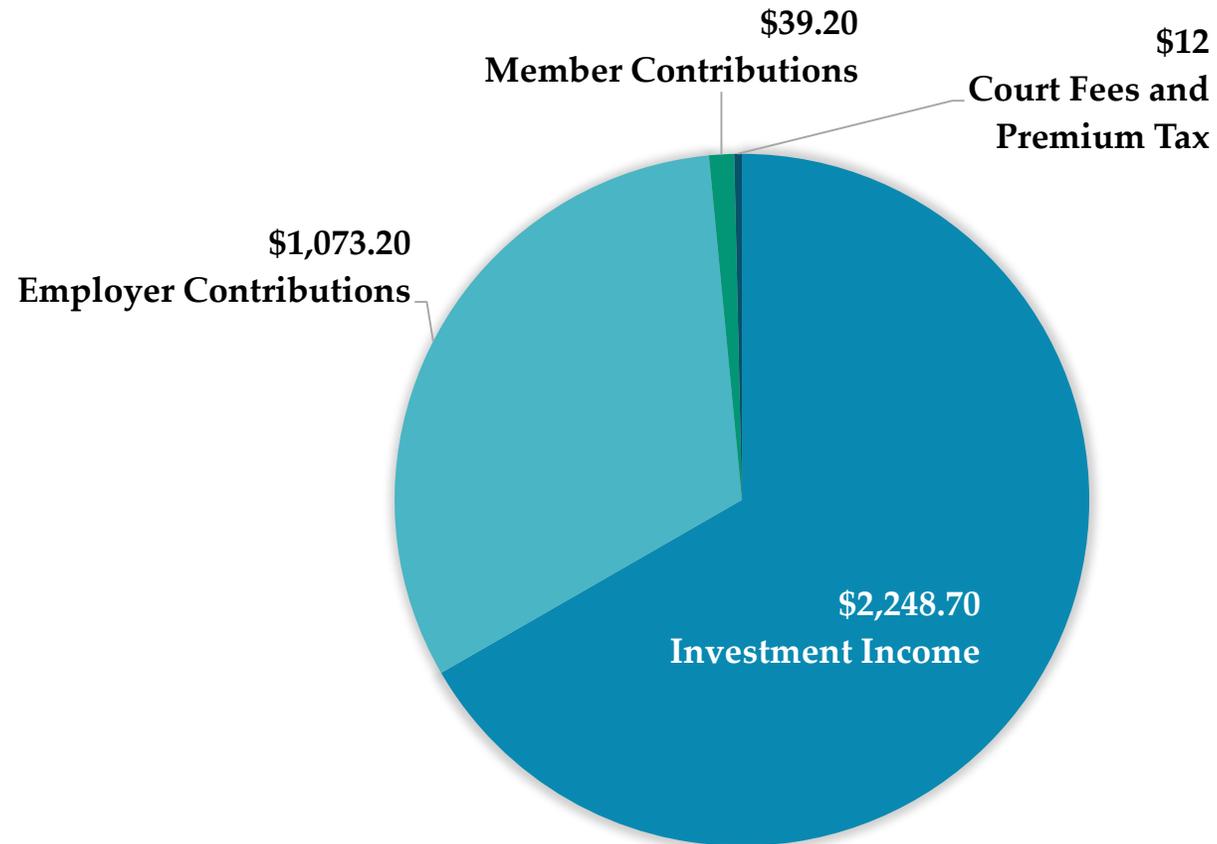
Years of Service × 1.5% × Final Average Salary

$$\begin{array}{r} \boxed{35} \times \boxed{1.5\%} \times \\ \begin{array}{r} \text{Year 1 } \$44,869 \\ \text{Year 2 } \$45,779 \\ \text{Year 3 } \$47,684 \\ \text{Year 4 } \$49,590 \\ + \text{Year 5 } \$50,500 \\ \hline = \quad \$238,422 \\ \$238,422 \div 5 = \quad \mathbf{\$47,684} \end{array} \end{array}$$

$$\begin{array}{r} 30 \times 1.5\% \times \$47,684 \\ = \quad \mathbf{\$25,034} \end{array}$$

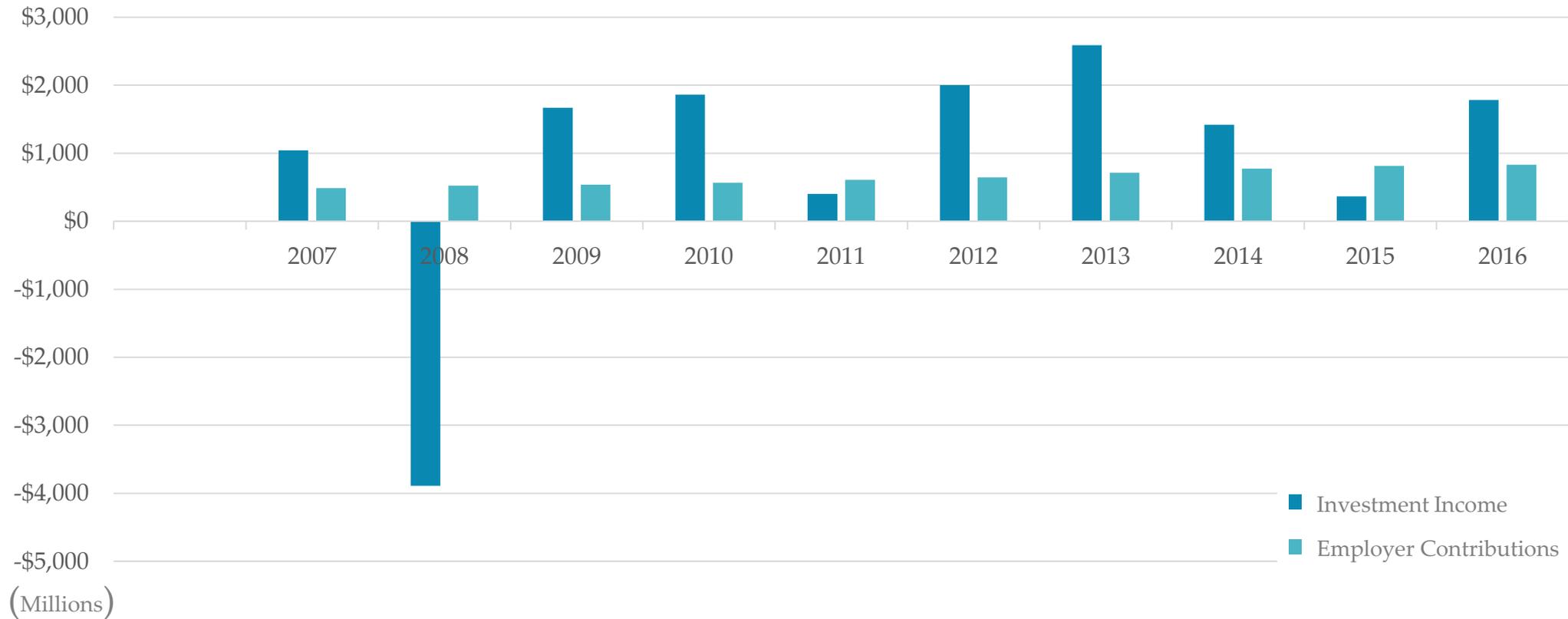
# Utah Retirement Systems Revenue Sources

All Systems – Annual Total = \$2,071.1 Million



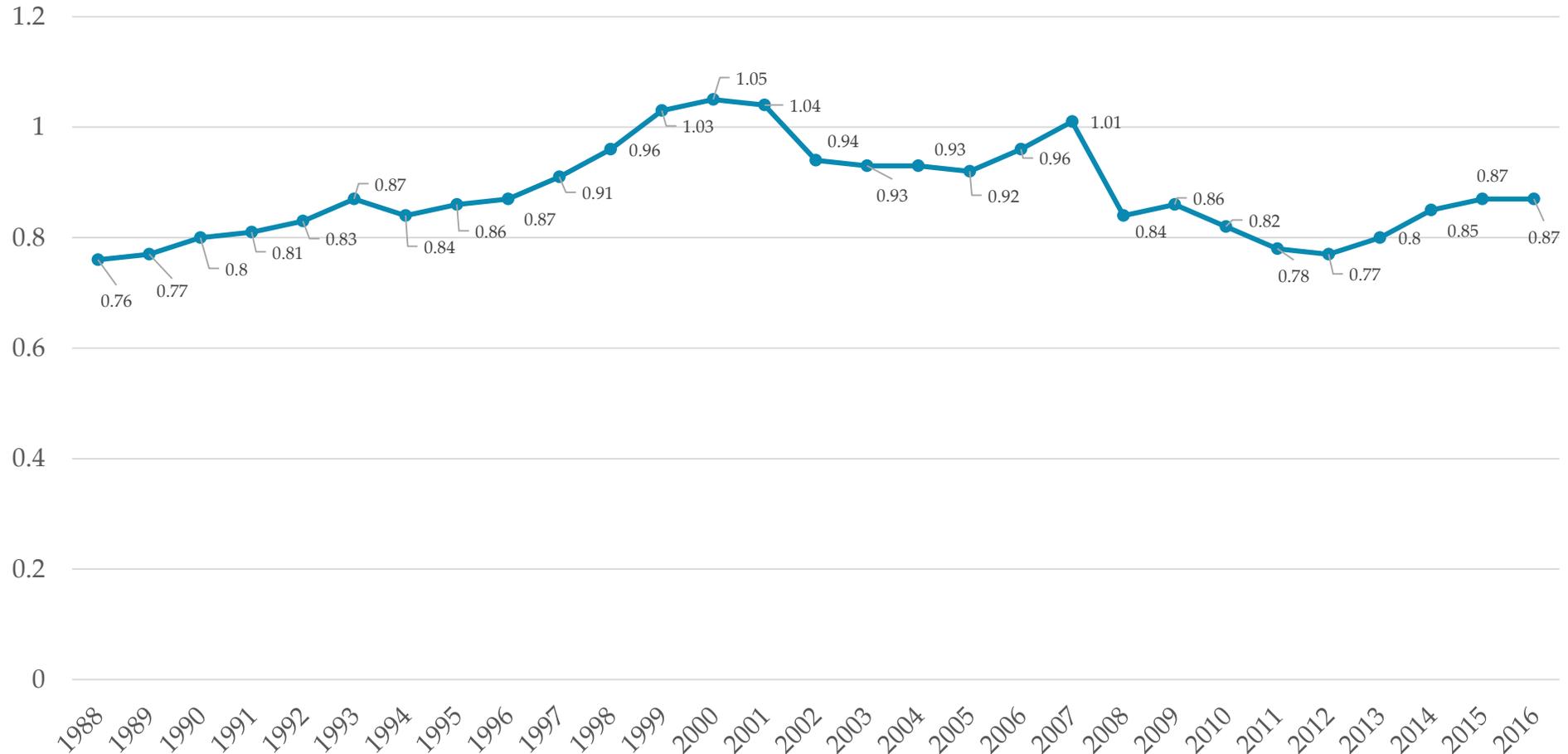
# Utah Retirement Systems

Tier I Noncontributory System – 10 Year Revenue Sources



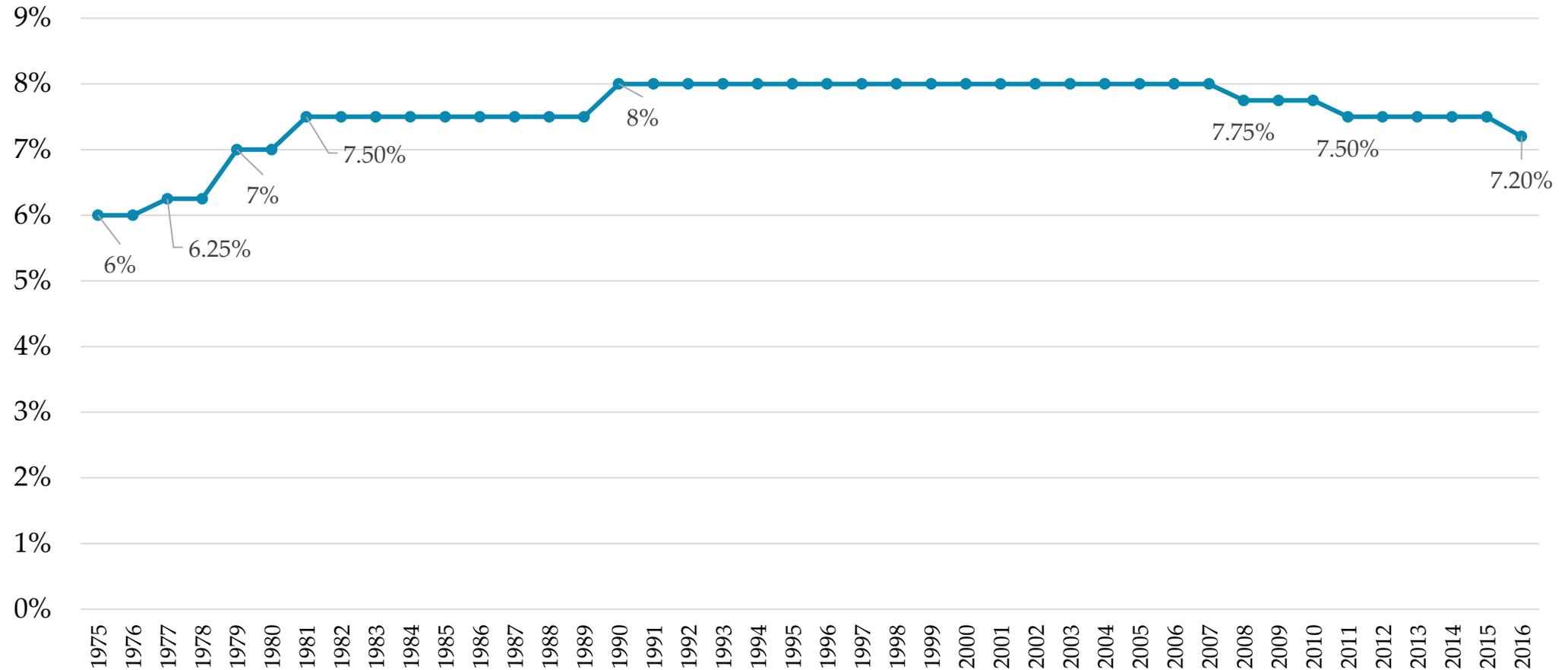
# URS – Funded Ratio History

All Systems



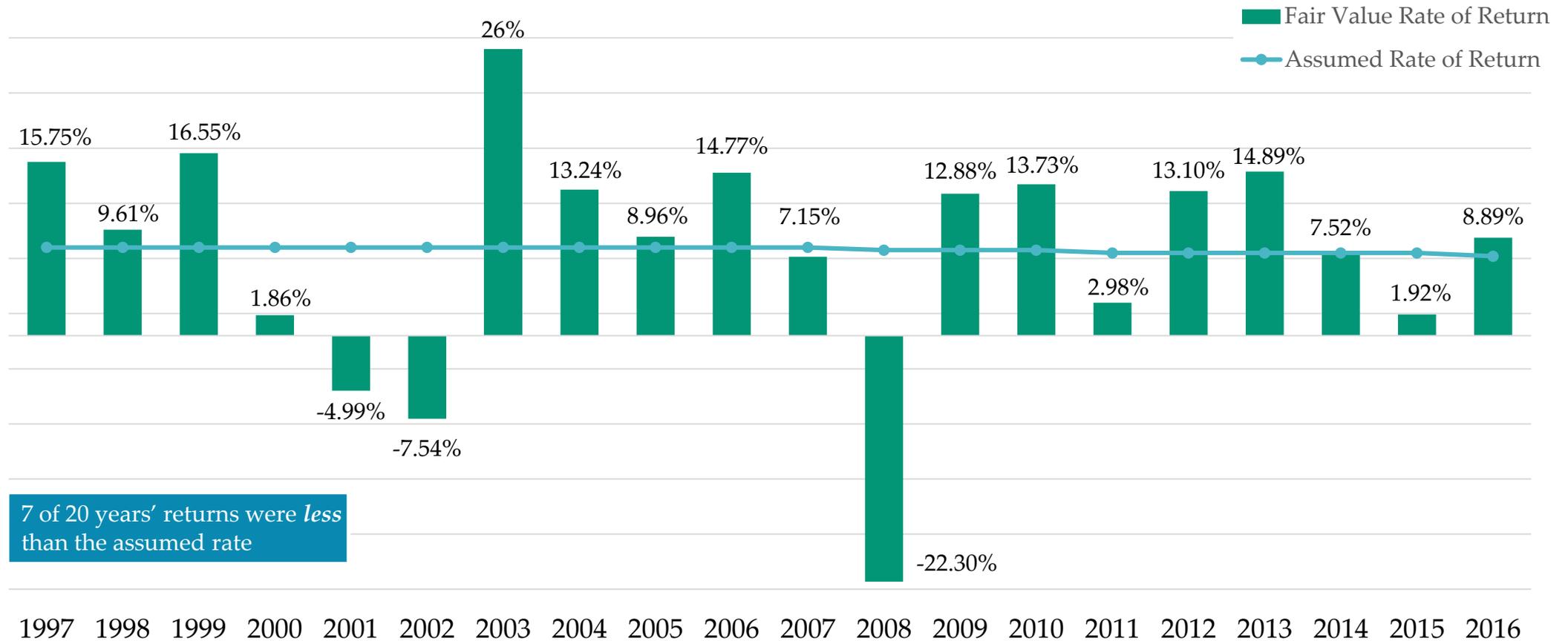
# Historic URS Actuarial Interest Rate

Assumed Rate of Return on Investments



# Historic URS Rate of Return on Investments

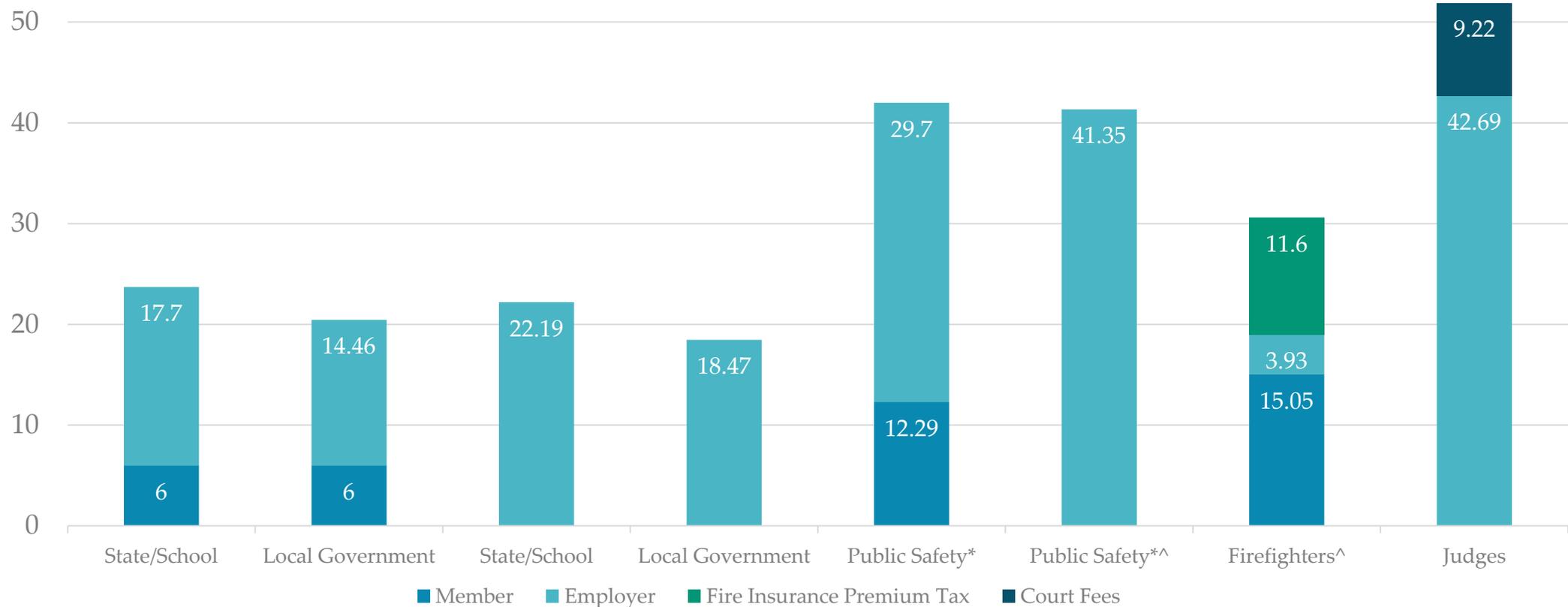
20 Year History – 1997-2016



7 of 20 years' returns were *less* than the assumed rate

# URS – Tier I Contribution Rates

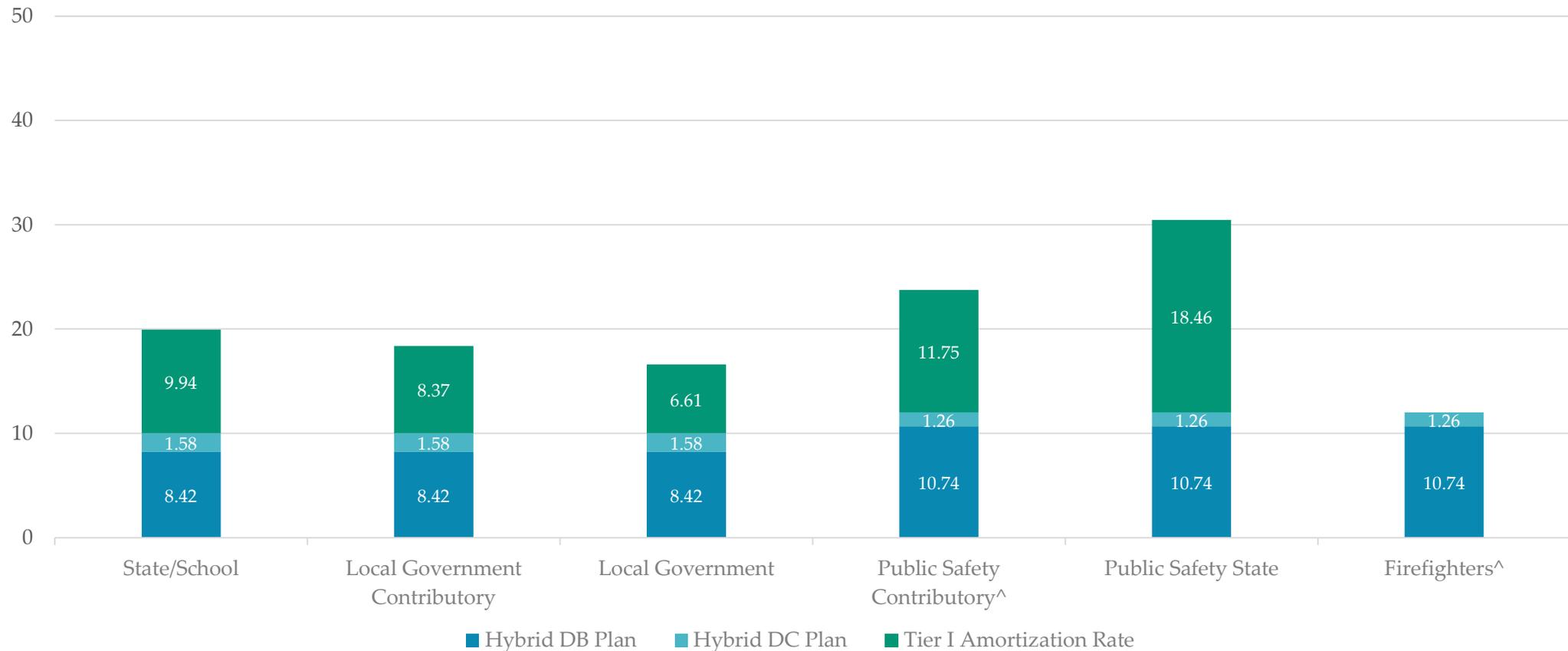
FY 2018 – Percentage of Salary



\*State Employees with 4% COLA ^ State Employees with Social Security (Division A) only  
 Source: Utah Retirement Systems Final Retirement Contribution Rates for FY July 1, 2017 – June 30, 2018.

# URS – Tier II Contribution Rates\*

FY 2018 – Percentage of Salary



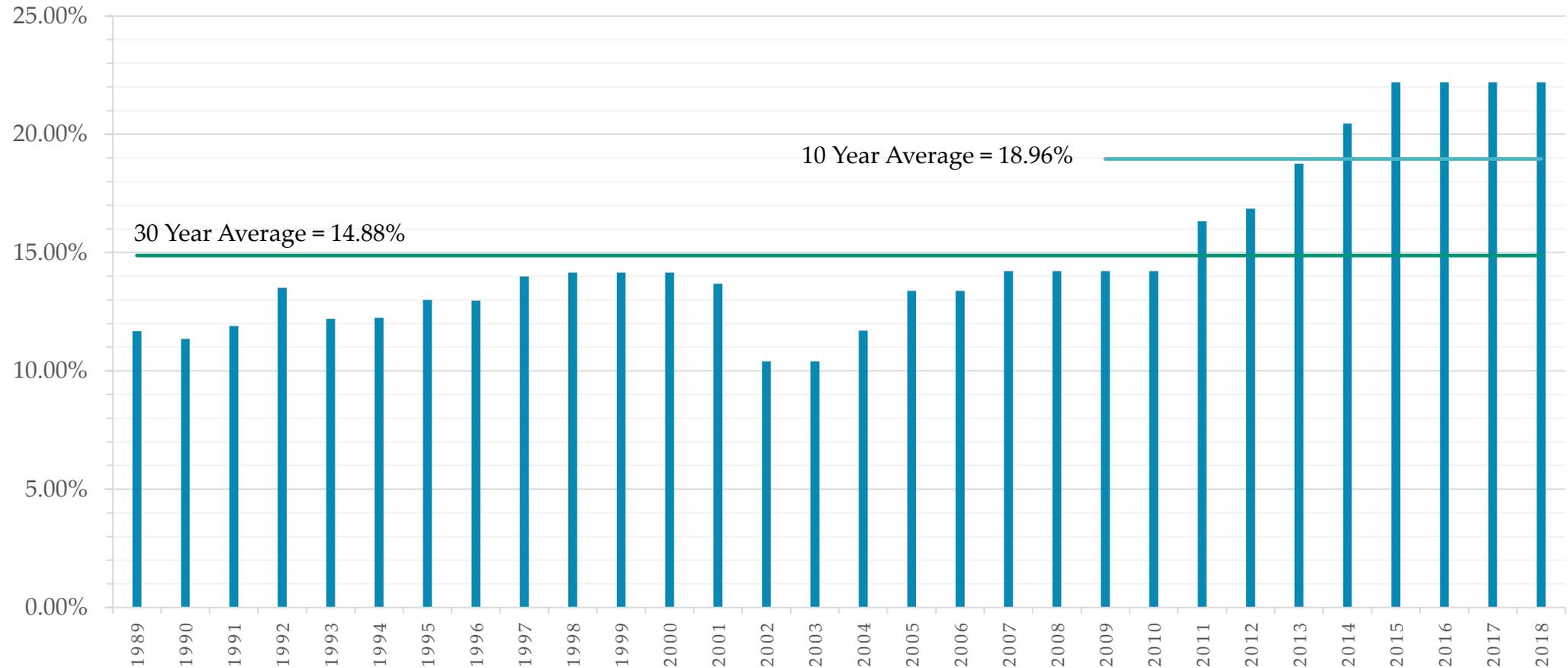
\*Death Benefit rate not included (0.08% for public employees and 0.08% for public safety and firefighters)

^Employees with Social security (Division A) with 2.5% COLA

Source: Utah Retirement Systems Final Retirement Contribution Rates for FY July 1, 2017 – June 30, 2017.

# Public Employees' Noncontributory Contribution\* Rate History

State and School - Percentage of Salary



\*Does not include the required 1.5% 401(k) contribution  
Source: Utah Retirement System

# Average Annual Benefit (Retirement Allowance)

2016 Retirees



**Questions?**